

Market Update

December 2009

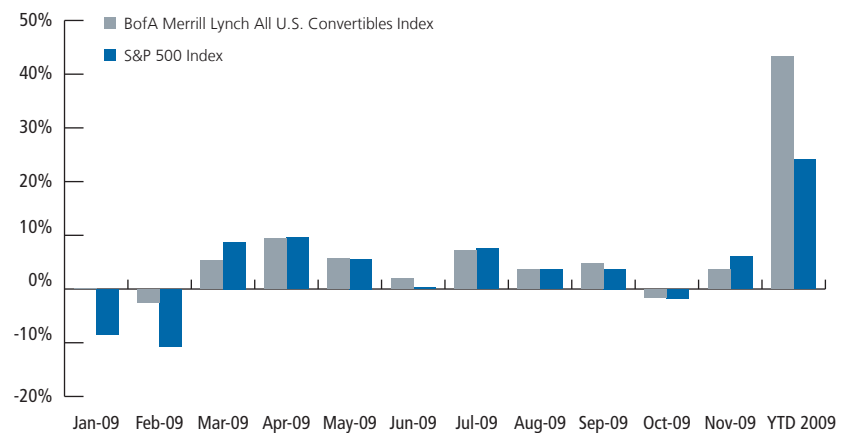
Convertibles Rise With Equities in November

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The equity rally in November supported a 3.56% rise in convertibles¹ as represented by the BofA Merrill Lynch All U.S. Convertibles Index. The S&P 500 Index rose 6.00%. Speculative-grade convertibles rose 4.9% and outperformed the 2.1% return by investment-grade issues during the month. The speculative rally witnessed this month has been dominated by the performance of the lowest rated tiers, including the 7.1% return in CCC rated convertibles.

Year-to-date, convertibles have risen 43.3% and outperformed the 24.1% S&P 500 return. The 73.1% return this year by speculative-grade convertibles, more than three times the 23.2% return of investment-grade convertibles, have contributed significantly to the rally. Calamos has concerns about the higher default rates exhibited by the most speculative-grade issuers and continues to focus on issuers with higher quality balance sheets in still uncertain times. Our focus remains on those firms that provide productivity enhancement capabilities, global diversified revenues, cleaner balance sheets and attractive valuations.

2009 Monthly Convertible Returns



Source: Mellon Analytical Solutions LLC.

Almost All Sectors Rise

All economic sectors except energy produced positive returns in November. The best performers were the materials (8.8% return) and consumer-discretionary (6.8%) sectors. Bottom performing sectors for the month included energy (-0.4%) and media (1.8%). Year-to-date, the materials (91.3%) and consumer-discretionary (77.1%) sectors have been the best performers while the utilities (22.4%) and consumer staples (23.2%) sectors have been the bottom performers.

¹ Convertible bonds are interest-paying securities, similar to corporate bonds, in which investors have the option to turn the bonds into a predetermined number of shares. The hybrid nature of the securities offers investors the principal protection and income characteristics of bonds with the opportunity for higher returns if the issuer's stock price rises. This discussion also includes convertible preferred shares, which have similar characteristics.

Global Convertibles

The BofA Merrill Lynch Global 300 Convertible Index returned 2.78% in U.S. dollar terms during the month while the developed equity market, as measured by the MSCI World Index, rose 4.14%. All but one sector posted positive returns. The materials (7.24%) and utilities (3.55%) sectors were the best performers, while energy (-0.33%) performed the worst and was the only sector with a negative return during the month. Of all the major regions in the global convertible index, Japan (4.33%) performed the best and outperformed Japanese equities.

More Evidence of Recovery Needed

The global economy continues to move ahead, albeit at a more cautionary pace. Since March, the markets have been propped up by government stimulus and relief. Going forward, we believe market action will be most affected by company fundamentals and tangible advances in economic indicators. We have been skeptical of government's ever-growing involvement because a true recovery based on market forces is typically more sustainable because of its reliance on the needs of consumers. We are often asked what we believe will mark an end to this volatile environment. Our answer is that we expect to see improved conditions when assets move from financially weak hands to financially strong. This can be evident in increased merger and acquisitions activity and when stronger institutions acquire their weaker peers.

Our investment focus continues to lead us to better businesses with healthier balance sheets, sustainable business models, and attractive valuations. We are prepared for a volatile market environment, but one which we believe should still present attractive long-term growth opportunities within areas such as technology, energy and materials.

The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only should not be considered investment advice.

Past performance is no guarantee of future results. Current performance may be lower or higher than the performance quoted.

Index Definitions

The BofA Merrill Lynch All U.S. Convertible Index (VXA0), which is comprised of approximately 700 issues of only convertible bonds and preferreds of all qualities. The stock market is represented by the U.S. S&P 500 Index, an unmanaged index generally considered representative of the domestic large-cap stock market. The MSCI World Index is a market capitalization weighted index designed to measure the equity market performance of 23 economically developed markets. The Merrill Lynch Global 300 Index is a global convertible index composed of companies representative of the market structure of countries in North America, Europe, and the Asia/Pacific Region.

Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index.

There are certain risks associated with an investment in a convertible bond such as default risk—that the company issuing a convertible security may be unable to repay principal and interest—and interest rate risk—that the convertible may decrease in value if interest rates increase.

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